



# Department of Justice

FOR IMMEDIATE RELEASE  
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**JUSTICE DEPARTMENT ALLOWS CREATION OF NEW WHOLESALING  
AND DISTRIBUTION ENTITY FOR INDUSTRIAL PRODUCTS**

WASHINGTON, D.C. -- The Department of Justice announced today that it will not challenge a proposal to create Depot Direct Inc., a new firm that will warehouse and distribute industrial products.

In a business review letter issued by the Department, Joel I. Klein, Assistant Attorney General in charge of the Antitrust Division, stated that the procedures adopted by Depot Direct assure that it would operate independently of its customers and investors, that it's customers' purchasing options would be preserved, and that confidential pricing information would not be disclosed. As a result, the procedures "should avoid antitrust risks of either a horizontal or vertical nature."

As proposed, Depot Direct initially will be owned by eighteen investors who are involved in or knowledgeable about the markets involved. The investors will provide \$3 - 3.5 million in financing, anticipating that the initial private financing will be followed by a public offering that will substantially broaden ownership of Depot Direct.

Under the agreement, Depot Direct will purchase industrial products from individual manufacturers on a negotiated basis. All pricing negotiations with manufacturers will be conducted by company representatives who are not employed by any investor/distributor or customer of Depot Direct. The terms of the purchase will be kept confidential from customers and industry investors. It is anticipated that, at least initially, Depot Direct will pay certain refunds annually to its manufacturer/suppliers based on the company's profitability and the amount of the individual manufacturer's product sold by Depot Direct to its customers.

Depot Direct will sell to five general categories of customers: authorized distributors (selected by a manufacturer), resellers, end-use customers, consolidators and integrators. All customers will be required to prepay an annual fee. Those who are willing to commit to an annual volume of purchases from Depot Direct will be designated "members" and will be entitled to a year-end bonus, based on the company's profitability and their purchases, and a reduced annual fee. "Membership" will be equally available to all customers. Customers who choose not to make an annual purchase commitment, can buy as much or little as they choose, but will not be eligible for the reduced annual fee or a year-end bonus.

Depot Direct will play no role in any manufacturer's selection of its "authorized" distributors, nor will it involve itself in determining the terms or conditions on which any

distributor resells the products supplied by Depot Direct.

Industrial products from the following product category groupings will be included in Depot Direct's initial merchandise for sale: hydraulic pumps; pneumatic air motors; hydraulic valves; pneumatic valves; actuators; hydraulic filters; pneumatic filters; hydraulic and pneumatic hose/fittings; accumulators; heat exchangers; electric motors; ball valves, flanges; sensors; gauges; accessories; replacement parts; aftermarket replacement products; and other pneumatic products. Additional products may be carried over time.

If Depot Direct's business plans are fully realized, its purchases would account for less than ten percent of U.S. purchases of the product lines on average, and would not exceed eighteen percent of any product line.

The organizers of Depot Direct assert that the traditional distribution pattern in which manufacturers sell products to authorized distributors who resell to other vendors as well as end-users is relatively inefficient for all parties concerned. In contrast, they believe that Depot Direct will be able to offer improved delivery and better prices for all the parties in the distribution chain--manufacturers, distributors and end-users--by capturing economies of scale, scope and specialization.

Under the Department's business review procedure, a person or organization may submit a proposed action to the Antitrust Division and receive a statement as to whether the Division will challenge the activity as a violation of federal antitrust laws.

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A file containing the business review request and the Department's response may be examined in the Legal Procedure unit of the Antitrust Division, Suite 215, Liberty Place, 325 7th Street, N.W., Washington, D.C. 20530. After a 30-day waiting period, the document supporting the business review will be added to the file.

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